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FISCAL IMPACT STATEMENT

LS 7012

BILL NUMBER: HB 1358

NOTE PREPARED: Jan 26, 2006

BILL AMENDED: Jan 25, 2006

SUBJECT: Special economic development project districts.

FIRST AUTHOR: Rep. Behning

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill allows: (1) a city; or (2) a county that contains a city; that has designated an economic development project district (EDPD) to designate the EDPD as a special retail district for retail projects and attractions that meet certain criteria. The bill provides that if a district is designated, an additional 1% Sales Tax applies to retail transactions within the district. The bill also specifies that this additional 1% Sales Tax is imposed, paid, and collected in the same manner as the state Sales Tax. It requires the amounts received from the additional 1% Sales Tax to be paid monthly by the Treasurer of the State to the county fiscal officer and deposited into a Special Fund. The bill allows money in the Special Fund to be used for any purpose that a property tax increment could be used. The bill authorizes a city in which a retail project or attraction that meets certain investment criteria is located to designate an EDPD. (Current law allows only four specifically listed cities to designate an EDPD.) The bill also authorizes the use of Sales Tax increment financing in the EDPD for retail projects and attractions meeting certain investment criteria.

Effective Date: July 1, 2006.

Explanation of State Expenditures: (Revised) *Supplemental Sales Tax in an EDPD:* This bill authorizes the fiscal body in a:

- (1) city; or
- (2) county containing a city;

with an economic development project district (EDPD) to establish a Special Retail District (District) and impose a supplemental Sales Tax of 1%. The bill provides that the Department of State Revenue (DOR) is required to collect the tax. It is estimated that DOR could implement this provision of the bill through the use of existing staff and resources.

Sales Tax Increment Financing: This bill authorizes any city that meets the following project development criteria:

- (1) the proposed project district may not exceed 400 acres;
- (2) the proposed project district must be established for the purpose of undertaking a project, or a series of projects, that have a total private capital investment of more than \$100 M;
- (3) the total capital investment for the project, or series of projects, must be more than \$500 M at the completion of the project, or series of projects; and
- (4) the project would not otherwise be accomplished through the ordinary operations of private investment because of the unique quality and scope of the project or series of projects;

to establish an economic development project district and use Sales Tax Increment Financing (STIF) to carry out economic development projects.

The increase in state expenditures is indeterminable. The Department of State Revenue (DOR) is responsible for determining the net increment used in calculating the amount of money that will be given back to the municipality. The resulting administrative cost impact to DOR could presumably be covered through the use of existing staff and resources.

The DOR's determination of the net increment is subject to approval by the State Board of Finance (SBF). The SBF is also responsible for determining the adjustment factor. The maximum adjustment factor under IC 36-7-26-3 is 80% (for an explanation of the gross increment, net increment, and adjustment factor, see the example below).

Explanation of State Revenues: (Revised) The overall impact on state revenues is indeterminable. The impact on state Sales Tax revenues will ultimately depend upon the level of new development in these cities and counties and the extent to which it generates new economic activity in the state. New development will increase the base of Sales Tax collections. There could also be a positive impact on the state's revenues from the Individual and Corporate Adjusted Gross Income Taxes and the Property Tax.

As for allowing STIF for more cities, the overall impact on state Sales Tax revenue will be determined by local actions with approval of the State Board of Finance. The effect on Sales Tax revenue will also depend upon the amount of new Sales Tax generated in any new STIF districts.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Supplemental Sales Tax in an EDPD:* The bill allows any:

- (1) city; or
- (2) county containing a city;

with an EDPD to impose a supplemental Sales Tax of 1%. Under current law, Hammond, Fort Wayne, South Bend, and Evansville are the only cities which can establish an EDPD. This bill allows any city with an economic development project that meets the project development criteria, listed above, to establish an EDPD. The amount of revenue that could be collected by imposing an additional 1% Sales Tax in these cities is indeterminable.

The collections from any supplemental Sales Tax under the bill would be paid monthly by the Treasurer of State to the fiscal officer of the city where the tax was imposed. The fiscal officer then must deposit the money into a special fund. The money in the special fund may only be used for any purpose that property tax increment could be used under IC 36-7-15.1-26.

Sales Tax Increment Financing: This bill authorizes any city with an economic development project that meets the project development criteria, listed above, to establish an EDPD and use Sales Tax Increment Financing (STIF) to carry out the economic development project. The overall impact of this provision on state Sales Tax revenue will be determined by local actions with approval of the State Board of Finance. The effect on Sales Tax revenue will also depend upon the amount of new Sales Tax generated in the district. After the district is established, the preceding fiscal year's Sales Tax revenue for the district is used as the base. Any Sales Tax revenue from that year forward is then compared to the base year, and any revenue difference, up to 80%, is able to be captured for STIF.

The bill provides that a city that utilizes STIF may issue bonds payable from the money received from STIF. The bill provides that a city which utilizes STIF for a project described in the following paragraph may issue bonds as well, but that any bonds issued are not in any manner general obligations of the state. Therefore, the bill specifies that these bonds remain a local obligation.

The bill provides that a city may *NOT* receive any funds from STIF until it is determined that the fiscal body of the city has pledged local revenues, other than from STIF or the supplemental 1% Sales Tax, to any bonds payable wholly or in part from the net increment. The amount of the local revenues pledged by a city must equal at least 20% of the total annual debt service or lease rentals and the maintenance of the debt service reserve. In addition the project for which the city has pledged its revenues meets either of the following criteria:

- (1) The following circumstances exist:
 - (A) There is not an existing similar retail project or attraction of a private company that has been proposed to be located within the district or within 65 miles of the district.
 - (B) The private company proposing to locate within the district has committed to not establishing a similar retail project or attraction within 120 miles of the district.
 - (C) The private company's retail project or attraction located in the district has a capital investment of at least \$25 M.
- (2) The project consists of a multi-tenant project or attraction that contains:
 - (A) at least 500,000 square feet; and
 - (B) at least 2 retail projects that meet the criteria described in (1).

The money received from STIF may only be used for any purpose that property tax increment could be used under IC 36-7-15.1-26.

Example of STIF: If a district was established in FY 2006, the "base period amount" would be the Sales Tax remitted by businesses within the district for FY 2005. The Sales Tax collected by businesses in the district total \$5 M in FY 2005. If Sales Tax revenue for FY 2006 totaled \$6 M, the "gross increment" for the district would be \$1 M. The maximum adjustment factor is 80%. The net increment is the amount of Sales Tax revenue that can be captured by the district for redevelopment. The net increment equals the gross increment multiplied by the adjustment factor, or in this case, \$1 M multiplied by 80%. Therefore, the maximum amount of Sales Tax revenue that could be captured by the district is \$800,000.

Background: Currently the cities of Hammond, South Bend, Fort Wayne, and Evansville are eligible to establish these districts and use STIF. Of those eligible cities, only South Bend has taken steps to use this provision, and the DOR has yet to receive information of actual development that would qualify for STIF.

Fort Wayne and Evansville may not receive more than 50% of the net increment each year, and not more than

\$1 M overall. South Bend may not receive more than 50% of the net increment each year, and not more than \$1 M per year. Hammond is limited to 80% of the net increment.

Sales Tax revenue is deposited in the: Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%).

IC 36-7-15.1-26 states that the property tax increment (and therefore the Sales Tax increment under this bill) may be used only to do one (1) or more of the following:

- (A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds that are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.
- (B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.
- (C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 19 of this chapter.
- (D) Pay the principal of and interest on bonds issued by the consolidated city to pay for local public improvements in that allocation area.
- (E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.
- (F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 17.1 of this chapter.
- (G) Reimburse the consolidated city for expenditures for local public improvements (which include buildings, parking facilities, and other items set forth in section 17 of this chapter) in that allocation area.
- (H) Reimburse the unit for rentals paid by it for a building or parking facility in that allocation area under any lease entered into under IC 36-1-10.
- (I) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located:
 - (i) in the allocation area; and
 - (ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance.

State Agencies Affected: Department of State Revenue; Treasurer of State; State Board of Finance.

Local Agencies Affected: County Fiscal Officer.

Information Sources:

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